



City of Santa Barbara
Airport Department

DATE: June 17, 2009
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: FY2009-2010 Airport Commercial/Industrial Lease Rates

RECOMMENDATION: That Airport Commission:

- A. Approve the proposed Fiscal Year 2009-2010 Commercial/Industrial Rental Rates for land and buildings at the Airport, effective July 1, 2009; and
- B. Concur with the continuation of Airport Policies and Procedures regarding the establishment of rental rates, annual rental rate adjustments, and delinquencies.

DISCUSSION:

Background

The Business & Property Management Program is charged with maintaining the Airport's self-sufficiency and strong financial position by prudent fiscal management of its fixed assets.

This Program generates almost all of the revenue for the Airport Department. One of Property's key objectives for the Fiscal Year 2008-2009 was to maintain annual lease revenue at the budget target of \$3,840,000. The Program is on target to reach this goal.

The Business & Property Division currently manages 128 tenants and 160 agreements, not including taxicabs. These tenants include:

- Leases and concession agreements associated with the operation of commercial air service (airlines, rental cars, restaurant, gift shop, TSA, shuttle services, parking, ATM machine etc.)
- General aviation agreements (FBOs, T-hangars, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.)
- Commercial/Industrial leases (offices, research & development, light industrial and storage spaces) including 341,510 square feet of buildings and 4,731,500 square feet of land.

Current Occupancy Rates

The current average occupancy rate for land for 2009 is 99.17%, a decrease of less than two-tenths of one percent from the 2008 average of 99.3%. The 2009 occupancy rate for buildings averaged 98.3%, an increase of one-half of one percent above the 2008 rate of 97.8%.

Since November of 2008, the Airport has seen a few tenants who were using their premises as satellite locations consolidate their business and leave the Airport.

FAA Grant Assurances

The Airport is required by the Federal Aviation Administration grant assurances to receive fair market value for its leased property. FAA guidelines state: "In determining what is the fair market value, consideration should be given to the current market value of the property and to the going rate for rental of equivalent premises."

To determine market value, Airport staff utilizes several resources, including the Consumer Price Index, recent appraisals of Airport Property, the UCSB Economic Forecast, and commercial real estate listings to assess real estate conditions before recommending a range of rental rates for each category of property.

Once the range of rental rates is established, specific leases can be negotiated according to the proposed use, location, condition and amenities of the subject property.

Marketing of Airport Properties

Traditionally, most potential tenants learned of Airport vacancies by word of mouth, Santa Barbara City TV, or the Airport website flysba.com. Airport Commission recommended that staff take a more aggressive approach to marketing property because of prevailing economic conditions. Based on this recommendation, the Airport posted signs in several visible locations.

Confusion still exists among members of the general public about the extent of Airport property. Potential tenants often don't know who to contact when they see a vacant Airport property, since it is assumed that the property is in Goleta. The posting of the signs displaying the Administration phone number has resulted in an increase in inquiries regarding vacant properties.

Current Rental Rates

Airport lease rates are reviewed annually and adjustments recommended when warranted. The last adjustment to the rental rates was July 1, 2008.

Buildings:

Office	\$1.35 to \$1.85/ square foot / month
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Industrial / R & D/ Shop / Assembly	\$.95 to \$1.50/square foot / month
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Storage / Warehouse	\$.68 to \$1.00/ square foot / month
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Container Storage	\$.40 / square foot / month
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<i>Land:</i>	<i>\$.14 to \$.37/ square foot / month</i>
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Parking Spaces:	\$14.00/space/month
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**Building rates vary according to location, condition, intended use and improvements by Airport and Tenant. Land rates vary based upon improvements such as pavements, fencing and lighting.*

Effects of the Current State of the Economy

The current downturn in the economy has affected the Airport by increasing the number of tenants consolidating their premises, the number of delinquent tenants, and the requests for some form of rent relief.

Five Airport tenants requested rental abatements. Requests were received from both non-commercial aviation and commercial/industrial tenants. The requests were based on:

- Downturn in the tenant's revenue
- The misperception that vacancy signs were a sign of desperation on the part of the Airport
- The observation that the CPI has fallen below the Airport minimum of three percent for several months

The requests were discussed by the Lease Review Subcommittee at their May 14, 2009 meeting. The Subcommittee directed staff to research and analyze the following options:

- Reduction of Rent – annual rental per square foot rate
- Reduce space – tenants can reduce space and have rental changed
- Change CPI range – evaluate lease policy on CPI adjustments
- Delinquent Rent – collection procedures for past due accounts

Reduce Rent

The current rental market in Goleta was evaluated over a five week period. The average asking rates per square foot for Goleta properties compared to Airport properties are listed below:

	Goleta	Airport
Office:	1.54	1.43
Industrial/R&D	1.08	1.04
Warehouse	.74	.63
Land	no comps	.14 unpaved .17 paved

Based upon this information and considering the relative condition and age of Airport buildings, staff feels that the current range of rental rates is reasonable and does not recommend any reductions at this time.

Reduce Space

Of the tenants who have requested that the rent be reduced, we have offered an alternative to revise the lease to reduce the premises. Some of the tenants have agreed, recognizing that their business plans will work with the reduced premises. The square foot rate remained the same, but the monthly rental was reduced.

Change the CPI Range

The Airport formalized the annual rental adjustment in the early 1990's and set the CPI range at no less than 3% no greater than 8%. At the time, the CPI was averaging around three percent, thus the floor of the range. Tenants were particularly concerned about hyper inflation and did not want to be accessed double digit increases, so the top of the range was set at eight percent. It was not contemplated that the CPI would go below zero as it has done in the last several months.

A historical analysis of CPI increases was done to ascertain if the current range of 3 to 8 percent was still reasonable and represented industry standard. Although the index for the preceding twelve months varied widely (from -0.2 to 4.5%) it averaged 2.2 percent. The average for the preceding five years was 3.8 percent, and for the preceding 10 years, 3.4 percent. Viewed over the long term it is apparent that last year's CPI values are an aberration. Airport staff recommends keeping the CPI rental adjustment range at no less than 3% and no greater than 8%.

Delinquent Rent

All leases have deposits either in cash or letters of credit, when tenants fall 30-days behind, staff will use a portion of the deposit to cover the monthly rent, and then work with the tenant to replace deposit. At this time the airport has an average of five-six tenants who pay after the tenth of the month compared to two-three last year. Late charges are assessed on the tenth day. Three tenants are delinquent more than 30-days.

Historically, if after working with the tenant and offering up space reductions and repayment plans on delinquent rent, the rent continues to be 90-days in arrears then staff would begin legal action. The three delinquent tenants are actively working on making additional payments to bring their accounts up to date. No change in policy is recommended.

Impact to the Airport

The Airport's budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport's cash flow forecast which has been used in the feasibility study for the bond issue. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Any major change to rental rates could have an adverse impact to the Airport's budget.

Recommendation

Based upon the comparables in the Goleta area, the prevailing economic climate, and the confidence that the current caps on rental rates will be sufficient to maintain Airport properties at market rate, Airport staff recommends that the Airport maintain the lease rates at 2008 levels throughout FY2009-2010, and continue current Policies and Procedures for the establishment of rental rates, rental adjustments, and collection of delinquent rents.

PREPARED BY: Business & Property Division